

BEFORE
THE PUBLIC SERVICE COMMISSION OF
SOUTH CAROLINA

DOCKET NO. 2010-181-E – ORDER NO. 2011-564

AUGUST 15, 2011

IN RE: Application of Lockhart Power Company for Adjustment of Rates and Charges) ORDER APPROVING) INCREASE IN RATES) AND CHARGES AND) SETTLEMENT) AGREEMENT
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This matter is before the Public Service Commission of South Carolina (“Commission”) on the Application of Lockhart Power Company (“Lockhart” or “the Company”) filed February 14, 2011, for adjustments in the Company’s electric rate schedules and tariffs. The Application was filed pursuant to S.C. Code Ann. § 58-27-860 (Supp. 2010) and 26 S.C. Code Ann. Regs. 103-823 (Supp. 2010). Along with its Application, the Company also filed the direct testimony and exhibits of four witnesses: Bryan D. Stone, Chief Operating Officer of Lockhart Power Company; Paul W. Inman, Business Controller of Lockhart Power Company; Charles R. Parmelee, Consultant and Principal of Parmelee & Associates; and Paul R. Moul, Managing Consultant of P. Moul and Associates.

The Company’s electric rates and tariffs were last approved by the Commission in Docket No. 2007-33-E, Order No. 2007-474 issued on July 19, 2007, wherein the Commission ordered an increase in annual revenues of \$484,291 for the Company based on a 12.0% return on common equity (“ROE”). The rates and charges requested in the

Company's Application in the present docket would produce a net increase in annual revenues of \$337,676 calculated on a 12.50% ROE.

In its Application, the Company proposes to revise its Schedule O during the first month in which the proposed rates are in effect, since the tariff no longer solely addresses purchased power. In addition to purchased power costs, Schedule O would be revised to also incorporate costs related to fuel and credits for off-system sales associated with Lockhart's Wellford Landfill Gas generator and any other future PSC-approved generation projects. Lockhart therefore requests that Schedule O be renamed from the *Purchased Power Adjustment Clause* to the *Power Adjustment Clause*. Lockhart also requests Commission approval for recovery of costs related to the Company's purchase of the City of Union diesel generators and the Company's newly constructed Wellford Landfill Gas generation facility.

On February 25, 2011, the Commission's Clerk's Office instructed the Company to publish a Notice of Filing and Hearing in newspapers of general circulation in the area affected by the Company's Application by March 4, 2011. On March 4, 2011, the Commission issued a Revised Transmittal Letter changing the date by which the Company was required to publish the Notice of Filing and Hearing to March 14, 2011. The Notice of Filing and Hearing indicated the nature of the Company's Application and advised all interested parties desiring participation in the scheduled proceeding of the manner and time in which to file appropriate pleadings. The Company was also required to notify directly all customers affected by the proposed rates and tariffs. On April 1, 2011, the Company filed with the Commission affidavits demonstrating that the Notice

was duly published in accordance with the Clerk's Office's revised instructions and certified that a copy of the Notice was mailed to each affected customer.

In response to Lockhart's Application, the South Carolina Office of Regulatory Staff ("ORS") conducted on-site investigations of the Company's facilities and examined its books and records relative to the matters raised in the Company's Application. ORS's findings were compiled in the testimony and exhibits of ORS witnesses.

A public night hearing was held in this matter on May 31, 2011, at 6:00 pm at the Union City Hall, located at 101 Sharpe Avenue, Union, South Carolina to afford the customers of the Company's system the opportunity to testify before the Commission regarding Lockhart's Application. Three customers of the system testified. One of the public witnesses, Mr. Roy Glass, provided copies of several months' bills from Lockhart for the previous winter, and these were admitted into the record of this case as composite Hearing Exhibit 1.

On June 3, 2011, ORS informed the Commission that the parties had entered into a comprehensive Settlement Agreement ("Settlement") and filed the direct testimony and exhibits of three witnesses: Sharon G. Scott, Audit Senior Manager for Rate Cases; M. Anthony James, Associate Program Manager in the Electric Department; and Leigh C. Ford, Senior Electric Specialist in the Electric Department. The Settlement, along with the settlement testimony of ORS witness Leigh C. Ford, was filed with the Commission on June 17, 2011. The Settlement, along with its Attachments A through D, are attached hereto as Order Exhibit No. 1 and incorporated herein by reference.

The Commission held a settlement hearing on this matter on June 27, 2011, with the Honorable John E. “Butch” Howard, Chairman, presiding. The ORS was automatically a party to this matter pursuant to S.C. Code Ann. § 58-4-10(B) (Supp. 2010) and was represented by Jeffrey M. Nelson, Esquire, and Courtney D. Edwards, Esquire. Lockhart was represented by M. John Bowen, Jr., Esquire. Collectively, ORS and Lockhart are referred to as “the Parties” or individually as a “Party.” The Settlement, with Attachments A through D, was accepted into the record as composite Hearing Exhibit 2. Hearing Exhibit 3 consisted of the exhibits attached to the pre-filed direct testimony of Lockhart Witness Paul R. Moul, whose pre-filed direct testimony was accepted into the record without appearance. Hearing Exhibit 4 was a letter from Paul Inman to John Bowen regarding Public Witness Roy Glass’ billing concerns. Hearing Exhibit 5 consisted of the Application of Lockhart and all exhibits to that Application. In addition to the testimony of Paul Moul, the direct pre-filed testimony of Lockhart witnesses Bryan D. Stone, Charles R. Parmelee, and Paul W. Inman were stipulated to and accepted into the record without cross-examination by ORS.

Lockhart witnesses Stone, Parmelee, and Inman, as well as ORS witnesses Sharon G. Scott, M. Anthony James, and Leigh C. Ford, appeared before the Commission to provide summaries of their pre-filed direct testimonies, which were accepted into the record of this case, and were examined by the Commission. Lockhart witness Stone testified as to Lockhart operations, the purchase of the City of Union diesel units, the purchase and development of the Wellford Landfill Gas generation facility and associated rate treatment, as well as the reasons for the rate adjustment. Lockhart witness

Parmelee's testimony discussed cost of service, rate schedules, and the revenue requirements for each class of customer, and Lockhart witness Inman testified regarding the accounting and pro forma adjustments made to the test year in Lockhart's Application. ORS witness Scott testified as to the findings and recommendations resulting from ORS's examination of the Application. ORS witness James testified as to ORS's examination of Lockhart's cost of service studies and rate design. ORS witness Ford testified regarding the ORS Electric Department's examination of the inclusion of additional generating facilities and certain pro forma adjustments in Lockhart's Application. ORS witness Ford additionally provided settlement testimony to explain and provide support for the Settlement and to affirm ORS's belief that its terms and conditions are in the public interest.

The Parties represented to the Commission that they had engaged in discussions on the issues of this case and that following the discussions, Lockhart determined that its interests, and ORS determined that the public interest, would be best served by stipulating to a comprehensive settlement of all issues pending in this matter. The testimony demonstrated that, pursuant to the Settlement, the Parties stipulated to an increase of the Company's net revenues in the amount of \$287,959 and a ROE of 12.00%. The Parties also agreed to the accounting exhibits attached as Attachment A to the Settlement as setting forth the Company's operating expenses, pro forma adjustments, depreciation rates, rate base, revenue requirement, and rate of return on rate base. Attachments B and C to the Settlement provide a comparison of the rate revenues, by class, per the Application and per ORS's adjustments as agreed to by the Parties.

Attachment D to the Settlement contains revised language of Schedule O as agreed to by the Parties.

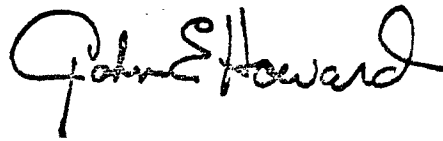
After having considered the pre-filed testimony of the witnesses and based on the Commission's review of the Settlement and exhibits, and the testimony and exhibits submitted during the hearing, the Commission adopts the Settlement as a comprehensive settlement on all issues, terms, and provisions as just and reasonable and finds that it is in the public interest. The terms and conditions include: the ORS accounting adjustments as delineated in Attachment A to the Settlement; an increase of the Company's net revenues in the amount of \$287,959 and a ROE of 12.00% as shown in Attachment B to the Settlement; approval and inclusion of the purchase of the City of Union diesel generators and the Wellford Landfill Gas generation facility; an increase in the Basic Facilities Charge for residential customers from \$6.50 to \$7.00; an adjustment in rates based on the class revenue allocations as shown in Attachment C to the Settlement; and the revisions to Schedule O of Lockhart's tariff as shown in Settlement Attachment D.

IT IS THEREFORE ORDERED THAT:

1. The Settlement entered into by all Parties to this Docket, and attached hereto as Order Exhibit No. 1, is incorporated herein and is adopted and approved as just and reasonable.
2. Lockhart shall immediately file a revised tariff reflecting the rates, charges, terms and conditions referenced in or based on the revenues by rate class provided in the Settlement, and shall implement the approved rates and charges for service rendered on and after August 1, 2011.

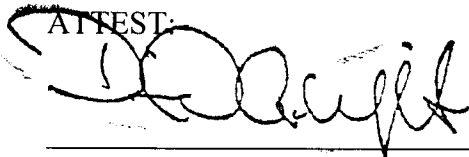
3. The Parties shall abide by all terms of the Settlement.
4. The purchase of the City of Union diesel generators and the purchase and development of the Wellford Landfill Gas generation facility and their associated requested rate treatments are approved as just and reasonable.
5. This Order shall remain in full force and effect until further Order of the Commission.

BY ORDER OF THE COMMISSION:



John E. Howard, Chairman

ATTEST:



David A. Wright, Vice Chairman

(SEAL)

BEFORE
THE PUBLIC SERVICE COMMISSION OF
SOUTH CAROLINA
DOCKET NO. 2010-181-E
June 17, 2011

Application of Lockhart Power Company) for Adjustment of Rates and Charges) _____)	SETTLEMENT AGREEMENT
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This Settlement Agreement is made by and between the South Carolina Office of Regulatory Staff ("ORS") and Lockhart Power Company ("Lockhart" or the "Company"), (together referred to as the "Parties" or sometimes individually as a "Party").

WHEREAS, the Company has prepared and filed an Application for Adjustment of Rates and Charges (the "Application") seeking an adjustment to its rates and charges and modifications to the Purchased Power Adjustment Clause (Schedule O);

WHEREAS, the above-captioned proceeding has been established by the Public Service Commission of South Carolina (the "Commission") pursuant to the procedure established in S.C. Code Ann. §58-27-810 *et seq.* (Supp. 2010), and the Parties to this Settlement Agreement are parties of record in the above-captioned docket;

WHEREAS, ORS is charged by law with the duty to represent the public interest of South Carolina pursuant to S.C. Code §58-4-10(B) (Supp. 2010);

WHEREAS, ORS has conducted an examination of the books and records of the Company relative to the matters raised in the Application; to test-period revenues and expenses;

to rate base, depreciation, and capital expenditures; to taxes paid by the Company; and to other relevant accounting matters;

WHEREAS, ORS also has examined all accounting adjustments proposed by the Company in the Application, as well as the Company's cost of service studies and rate design, and information related to the Company's operations and customer service;

WHEREAS, the Parties have varying positions regarding the issues in this case;

WHEREAS, the Parties have engaged in discussions to determine if a settlement of some or all of the issues would be in their best interests and, in the case of ORS, in the public interest; and,

WHEREAS, following those discussions, Lockhart and ORS have determined that their interests, and ORS has determined that the public interest, would be best served by stipulating to a comprehensive settlement of all issues pending in the above-captioned case under the terms and conditions set forth herein;

NOW, THEREFORE, the Parties hereby stipulate and agree to the following terms, which, if approved by the Commission in its Order on the merits of this proceeding, will result in rates and terms and conditions of electric service that are lawful, just, reasonable, and supported by the evidence of the record of this proceeding, and which will allow the Company the opportunity to earn a reasonable return:

1. The Parties agree that no documentary evidence will be offered in the proceeding by the Parties other than: (1) the Application filed by the Company, (2) the exhibits to and the

testimony of those witnesses referenced in paragraph 2 below, and (3) this Settlement Agreement with Attachments "A" through "D" attached hereto.

2. The Parties stipulate and agree to include in the hearing record of this case the pre-filed direct testimonies and summaries of Lockhart witnesses Bryan D. Stone, Charles R. Parmelee, Paul R. Moul and Paul W. Inman, including all exhibits attached to said pre-filed testimonies, without objection, change, amendment or cross examination. The Parties also stipulate and agree to include in the hearing record of this case the pre-filed direct testimonies and summaries of ORS witnesses Sharon G. Scott, M. Anthony James, and Leigh C. Ford, and the pre-filed settlement testimony of ORS witness Ford, including all exhibits attached to said pre-filed testimonies, without objection, change, amendment or cross examination including those exhibits attached hereto and incorporated herein by reference as Attachments "A" through "D".

3. For purposes of this Settlement Agreement and in recognition of the mutual compromises contained herein, Lockhart and ORS further agree that the stipulated testimony of record, the Application, and this Settlement Agreement conclusively demonstrate that: (i) the accounting and pro forma adjustments and depreciation rates shown in Exhibits SGS-1 through SGS-4 to the Direct Testimony of ORS Witness Scott, and appended to this Settlement Agreement in Attachment A, are fair and reasonable and should be approved by the Commission for ratemaking and reporting purposes; (ii) base rates generating a net retail revenue increase to ratepayers of \$287,959 on an adjusted test-year basis are lawful, just, and reasonable when considered as a part of this Settlement Agreement in its entirety; (iii) rates in this proceeding shall be established based on a 12.0% return on common equity ("ROE"); (iv) the Company's

services are adequate and are being provided in accordance with the requirements set out in the Commission's rules and regulations pertaining to the provision of electric service; and (v) the Company's class revenue allocations resulting from the Settlement Agreement are designed to recover the revenue requirement in an equitable and reasonable manner, and are just and reasonable and should be approved by the Commission for service rendered by the Company.

4. The Parties stipulate and agree that the accounting exhibits prepared by ORS and attached hereto as Attachment A (consisting of Exhibits SGS-1 through SGS-4) are fair and reasonable and set forth the Company's operating expenses, pro forma adjustments, depreciation rates, total rate base, revenue requirement, return on equity at an agreed upon rate of 12.0%, and rate of return on rate base.

5. In its Application, the Company requested a net increase in annual revenues from base rates of \$337,676, based on certain adjustments reflected in Attachment A. As a compromise to their respective positions, the Parties stipulate and agree to a net increase in annual revenues of \$287,959, based on the adjustments reflected in Attachment A and the 12.0% return on equity stipulated to by the Parties as further delineated below in Paragraph 7 A comparison of the Company's requested rate revenue increase and the increase agreed to by the Parties (shown as "ORS Adjusted") is provided in Exhibit MAJ-1 as Attachment B.

6. The Parties stipulate and agree that the ORS proposed revenues as shown by rate schedule in Exhibit MAJ-1 as Attachment C attached hereto are fair, just, and reasonable. The Parties further stipulate and agree that the proposed increase in revenues of \$287,959 is reasonably designed to allow the Company to provide service to its electric customers at rates that are fair, just and reasonable and the opportunity to recover the revenue required to earn a fair

return on its investment. The Parties further agree to the Company's proposed revision to its Schedule O attached as Attachment D and to an increase in the Base Facilities Charge ("BFC") for residential customers from \$6.50 to \$7.00; as opposed to the \$7.25 BFC requested by the Company in its Application.

7. In its Application the Company sought approval of an ROE of 12.5%. Lockhart and ORS hereby stipulate and agree that it is just and reasonable to establish an ROE of 12.0% for Lockhart.

8. In its Application, the Company requested an effective increase in revenues of \$337,676. As a compromise to their respective positions, the Parties stipulate and agree to an effective increase in revenues of \$287,959, said increase to be based upon adjustments reflected in Attachments A and B and further detailed in Exhibit MAJ-1 of Attachment B.

9. Lockhart and ORS stipulate and agree that the Company's requested ROE of 12.5% would generate rates resulting in a revenue impact of \$337,676 to Lockhart's ratepayers and that the agreed upon ROE of 12.0% will result in a comparative rate impact of \$287,959; reducing Lockhart's request by \$49,717 or 14.7%.

10. ORS is charged with the duty to represent the public interest of South Carolina pursuant to S.C. Code §58-4-10(B) (Supp. 2010). S.C. Code § 58-4-10(B)(1) through (3) reads in part as follows:

"... 'public interest' means a balancing of the following:

- (1) Concerns of the using and consuming public with respect to public utility services, regardless of the class of customer;
- (2) Economic development and job attraction and retention in South Carolina; and

- (3) Preservation of the financial integrity of the State's public utilities and continued investment in and maintenance of utility facilities so as to provide reliable and high quality utility services."

11. The Parties agree to cooperate in good faith with one another in recommending to the Commission that this Settlement Agreement be accepted and approved by the Commission as a fair, reasonable, and full resolution in the above-captioned proceeding. The Parties agree to use reasonable efforts to defend and support any Commission order issued approving this Settlement Agreement and the terms and conditions contained herein.

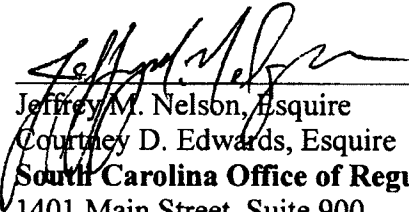
12. This written Settlement Agreement contains the complete agreement of the Parties. There are no other terms and conditions to which the Parties have agreed. This Settlement Agreement integrates all discussions among the Parties into the terms of this written document. The Parties agree that this Settlement Agreement will not constrain, inhibit or impair their arguments or positions held in future proceedings, nor will the Settlement Agreement or any of the matters agreed to in it be used as evidence or precedent in any future proceeding. If the Commission should decline to approve the Settlement Agreement in its entirety, then any Party desiring to do so may withdraw from the Settlement Agreement without penalty.

13. This Settlement Agreement shall be interpreted according to South Carolina law. The above terms and conditions fully represent the agreement of the Parties hereto. Therefore, each Party acknowledges its consent and agreement to this Settlement Agreement by authorizing its counsel to affix his or her signature to this document where indicated below. Counsel's signature represents his or her representation that his or her client has authorized the execution of the agreement. Facsimile signatures and e-mail signatures shall be as effective as original

signatures to bind any party. This document may be signed in counterparts, with the various signature pages combined with the body of the document constituting an original and provable copy of this Settlement Agreement.

WE AGREE:

Representing the South Carolina Office of Regulatory Staff



Jeffrey M. Nelson, Esquire

Courtney D. Edwards, Esquire

South Carolina Office of Regulatory Staff

1401 Main Street, Suite 900

Columbia, South Carolina 29201

Phone: (803) 737-0823

(803) 737-8440

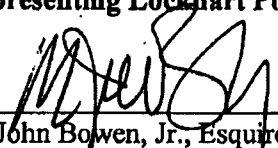
Fax: (803) 737-0895

Email: jnelson@regstaff.sc.gov

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WE AGREE:

Representing Lockhart Power Company



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Lockhart Power Company
Audit Exhibit SGS-1
 Operating Experience, Rate Base, and Rates of Return
 Test Year Ending December 31, 2009
 Docket No. 2010-181-E

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
		Total Electric			ORS	Retail Electric		
		ORS	After ORS	Application	Accounting &	After ORS	Proposed	After
		Accounting &	Accounting &	Per	Pro forma	Accounting &	Increase	Proposed
		Pro forma	Pro forma	Books	Adjustments	Pro forma	Increase	Increase
		Adjustments	Adjustments			Adjustments		
Operating Revenue								
Rate Revenue	23,809,379	(3,958,932) (A)	19,850,447	14,495,579	(2,364,971) (A)	12,130,608	1,605,208 (U)	13,735,816
Other Revenue	38,365	735,028 (B)	773,393	37,419	368,612 (B)	406,031	0	406,031
Total Operating Revenues	23,847,744	(3,223,904)	20,623,840	14,532,998	(1,996,359)	12,536,639	1,605,208	14,141,847
Operating Expenses								
Purchased Power	14,899,637	(3,222,618) (C)	11,677,019	7,821,364	(1,974,681) (C)	5,846,683	0	5,846,683
Production	962,166	422,754 (D)	1,384,920	505,405	195,088 (D)	700,493	0	700,493
Transmission	205,132	14,472 (E)	219,604	108,767	3,890 (E)	112,657	0	112,657
Distribution	722,784	51,419 (F)	774,203	708,611	50,418 (F)	759,029	0	759,029
Customer Accounting	382,960	25,982 (G)	408,942	369,706	23,778 (G)	393,484	0	393,484
Administrative & General	1,357,213	(21,035) (H)	1,336,178	1,055,325	(16,174) (H)	1,039,151	0	1,039,151
Regulatory Expense	35,417	22,736 (I)	58,153	30,217	22,736 (I)	52,953	0	52,953
Depreciation	1,219,499	246,769 (J)	1,466,268	963,972	120,626 (J)	1,084,598	0	1,084,598
Other Taxes	941,841	211,191 (K)	1,153,032	697,844	133,031 (K)	830,875	6,042 (V)	836,917
State Income Taxes	156,055	(48,779) (L)	107,276	113,590	(27,754) (L)	85,836	79,958 (W)	165,794
Federal Income Taxes	1,008,114	(315,111) (M)	693,003	733,787	(179,288) (M)	554,499	516,531 (X)	1,071,030
Amort. Inv. Tax Credit	(11,923)	0 (N)	(11,923)	(9,047)	367 (N)	(8,680)	0	(8,680)
Total Operating Expenses	21,878,895	(2,612,220)	19,266,675	13,099,541	(1,647,963)	11,451,578	602,531	12,054,109
Net Operating Income	1,968,849	(611,684)	1,357,165	1,433,457	(348,396)	1,085,061	1,002,677	2,087,738
Plus: Customer Growth	(10,297)	10,297 (O)	0	(7,497)	7,497 (O)	0	0 (Y)	0
Less: Interest on Cust. Dep.	4,374	0	4,374	4,374	0	4,374	0	4,374
Total Income for Return	1,954,178	(601,387)	1,352,791	1,421,586	(340,899)	1,080,687	1,002,677	2,083,364
Original Cost Rate Base								
Plant in Service	43,312,910	5,448,768 (P)	48,761,678	32,865,945	2,632,557 (P)	35,498,502	0	35,498,502
Less: Accum. Depreciation	20,869,566	2,404,179 (Q)	23,273,745	16,187,821	1,339,636 (Q)	17,527,457	0	17,527,457
Total Net Plant	22,443,344	3,044,589	25,487,933	16,678,124	1,292,921	17,971,045	0	17,971,045
Additions								
Constr. Work in Progress	1,428,663	1,633,430 (R)	3,062,093	976,900	1,158,297 (R)	2,135,197	0	2,135,197
Materials & Supplies	355,982	(12,018) (S)	343,964	236,978	(12,378) (S)	224,600	0	224,600
Deductions								
Accum. Def. Inc. Taxes	3,904,435	0 (T)	3,904,435	2,962,695	(120,300) (T)	2,842,395	0	2,842,395
Customer Deposits	126,285	0	126,285	126,285	0	126,285	0	126,285
Total Rate Base	20,197,269	4,666,001	24,863,270	14,803,022	2,559,140	17,362,162	0	17,362,162
Rate of Return	9.68%		5.44%	9.60%		6.22%		12.00%

Lockhart Power Company
Explanation of Accounting and Pro Forma Adjustments
For the Test Year Ended December 31, 2009
Docket No. 2010-181-E

Adj. # Per Co. Appl.	Description	Lockhart Total Electric	ORS Total Electric	ORS Retail Electric
<u>Accounting and Pro forma Adjustments</u>				
(A) Rate Revenue				
1a	Reduced purchased power costs in the Power Adjustment Clause (PAC)	(2,636,478)	(2,636,478)	
1b	Fuel expense added to the PAC	177,665	177,665	
1c	Off-system sales credited to PAC	(645,672)	(737,233)	
1d	PAC costs not recovered from lighting rates	29,422	29,422	
1e	Reduced base revenue for Monarch Plant closing	(792,308)	(792,308)	
	Total Rate Revenue Adjustments	(3,867,371)	(3,958,932)	(2,364,971)
(B) Other Revenue				
2	Revenue from off-system sales for Wellford Landfill Generation Plant	643,741	735,028	368,612
(C) Purchased Power Expense				
3a	City of Union diesel plant peak shaving	(802,217)	(802,217)	
3b	City of Union diesel plant interim contract payments not recovered in PPA	(140,786)	(140,786)	
3c	Duke true-up for 2009	(1,445,686)	(1,445,686)	
3d	Reduced power requirements resulting from closing of Monarch	(833,929)	(833,929)	
	Total Purchase Power Expense Adjustments	(3,222,618)	(3,222,618)	(1,974,681)
(D) Production Expense				
4a	City of Union diesel operating and maintenance expenses	97,843	97,843	
4b	Wellford plant operating and maintenance expenses	256,164	252,875	
4c	Training Grant credit removal	5,307	5,307	
4d	Production portion of the labor adjustment	91,038	98,213	
4e	Normalize test year expenses for removal of debris from dam over 2 years.	0	(9,814)	
4f	Normalize test year expenses for extraordinary maintenance over 2 years.	0	(21,670)	
	Total Production Expense Adjustments	450,352	422,754	195,088

Lockhart Power Company
Explanation of Accounting and Pro Forma Adjustments
For the Test Year Ended December 31, 2009
Docket No. 2010-181-E

Adj. # Per Co. Appl.	Description	Lockhart Total Electric	ORS Total Electric	ORS Retail Electric
<u>Accounting and Pro forma Adjustments</u>				
5	<u>Labor Adjustment</u> - Adjustment was made to Production, Transmission, Distribution, Customer Accounting, and Administration and General, proportional to labor ratios. The total electric expense adjustment per Company is \$240,847, and per ORS \$259,822. Includes adjustments 4d, 5a, 5b, 5c, and 6a.			
(E) Transmission Expense				
5a	Transmission portion of the labor adjustment	13,407	14,472	3,890
(F) Distribution Expense				
5b	Distribution portion of the labor adjustment	47,662	51,419	50,418
(G) Customer Accounting Expense				
5c	Customer Accounting portion of the labor adjustment	24,106	25,982	23,778
(H) Administrative and General Expense				
6a	Administrative and General portion of the labor adjustment	64,635	69,736	
6b	Amortize Transmission Study over 2 years	(81,268)	(81,269)	
6c	Portion of fringe benefits on wage adjustments	26,908	9,548	
6d	Remove non-allowable expenses	0	(19,050)	
	Total Administrative and General Adjustments	10,275	(21,035)	(16,174)
(I) Regulatory Expense				
7a	Rate case amortization of current expenses	56,500	52,953	
7b	Remove prior rate case expenses	(30,217)	(30,217)	
	Total Regulatory Expense	26,283	22,736	22,736
(J) Depreciation Expense				
8a	Annualize depreciation expense including Union diesel generators and the Wellford Landfill Gas plant.	243,718	246,769	120,626
(K) Other Taxes				
9a	Property related tax adjustment to include updates for Union diesel generators and Wellford Landfill Gas plant.	213,565	196,272	
9b	Payroll tax portion of the wage adjustment	20,641	27,054	
9c	Revenue tax adjustment due to pro forma revenue adjustments	(12,135)	(12,135)	
	Total Other Taxes	222,071	211,191	133,031

Lockhart Power Company
Explanation of Accounting and Pro Forma Adjustments
For the Test Year Ended December 31, 2009
Docket No. 2010-181-E

Adj. # Per Co. Appl.	Description	Lockhart Total Electric	ORS Total Electric	ORS Retail Electric
<u>Accounting and Pro forma Adjustments</u>				
(L) State Income Taxes				
10	Adjust state taxes for pro forma adjustments	(51,944)	(48,779)	(27,754)
(M) Federal Income Taxes				
11	Adjust federal taxes for pro forma adjustments	(335,560)	(315,111)	(179,288)
(N) Amortized Investment Tax Credit Expense				
15	To adjust for changes in functionalization and allocation	0	0	367
(O) Customer Growth				
12	To adjust for customer growth.	3,407	10,297	7,497
(P) Plant in Service				
13a	Wellford Landfill Gas plant addition updated through March 31, 2011	2,475,500	2,293,404	
13b	City of Union Diesel Peaking plant addition	2,473,171	2,473,171	
13c	Normal plant activity through March 31, 2011	299,385	682,193	
	Total Plant in Service	5,248,056	5,448,768	2,632,557
(Q) Accumulated Depreciation				
8b	Annualized depreciation and updates for the Wellford Landfill Gas plant and City of Union Diesel Peaking plant.	1,683,188	2,404,179	1,339,636
(R) Construction Work in Progress				
14a	Adjustment to March 31, 2011 balance	2,209,277	4,423,314	
14b	Remove Wellford Plant and transfer to plant	(2,475,500)	(2,742,191)	
14c	City of Union diesel plant net adjustments	(59,804)	(118,403)	
14d	Capital portion of wage increase adjustment. ORS combined adjustments 14d and 14e.	18,451	70,710	
14e	Capital portion of employee count adjustment	39,002	0	
	Total Construction Work in Progress	(268,574)	1,633,430	1,158,297
(S) Materials & Supplies				
15	To adjust for changes in functionalization and allocation.	0	0	(4,530)
15a	To adjust for 13-month average of materials and supplies at March 31, 2011	0	(12,018)	(7,848)
	Total Materials & Supplies	0	(12,018)	(12,378)

Lockhart Power Company
Explanation of Accounting and Pro Forma Adjustments
For the Test Year Ended December 31, 2009
Docket No. 2010-181-E

Adj. #	Per Co.	Appl.	Description	Lockhart Total Electric	ORS Total Electric	ORS Retail Electric
<u>Accounting and Pro forma Adjustments</u>						
(T) Accumulated Deferred Income Taxes						
15			To adjust for changes in functionalization and allocation.	0	0	(120,300)
<u>Proposed Increase</u>						
(U) Rate Revenue						
16			To adjust for the Company's proposed rate increase			1,605,208
(V) Other Taxes						
17			To adjust other taxes for the Company's proposed increase			6,042
(W) State Income Taxes						
18			To adjust state income taxes for the Company's proposed increase			79,958
(X) Federal Income Taxes						
19			To adjust federal income taxes for the Company's proposed increase			516,531
(Y) Customer Growth						
20			To adjust customer growth for the Company's proposed increase. ORS does adjust for negative customer growth.			0

Attachment A
Audit Exhibit SGS-3

Lockhart Power Company
Depreciation & Amortization Expense Adjustment
For the Test Year Ending December 31, 2009
Docket No. 2010-181-E

(A)	(B)	(C)	(D)	(E)	(F)	(G)	(H)	(I)	(J)	(K)	(L)
Acct.	Description	Pro forma Plant Balance	Accumulated Depreciation Per Books 3/31/11	Unrecovered Balance	Depn. Rate	Pro forma Annual Depn. / Amort.	Historical Annual Depr Exp.	Annualized Pro forma Depr Exp.	Pro forma Accumulated Depreciation	City of Union Diesel Purchase Adjustments	Allocated Pro forma Accumulated Depreciation
1	115.000 Amort. Elect. Plant Acq. Adjustment	303,996	17,460	286,536	1.92%	5,837					
2	Total Acquisition Adj.	303,996	17,460	286,536		5,837	5,820	17	17,477	0	17,477
3	Electric Plant in Service										
4	301.000 Organization Expense	403	0	403	0.00%	0					
5	302.000 Franchise & Consens	990,667	263,673	726,994	2.50%	24,767					
6	Intangible	991,070	263,673	727,397		24,767	24,767	0	263,673	0	263,673
7	330.000 Land and Land Rights	289,705	0	289,705	0.00%	0					
8	331.000 Structures and Improvements	255,210	171,918	83,292	2.00%	5,104					
9	332.000 Reservoirs and Dams	4,782,402	2,344,369	2,438,033	1.57%	75,084					
10	333.000 Waterwheels and Turbines	6,164,736	2,734,794	3,429,942	2.20%	135,624					
11	334.000 Accessory Electric Equipment	773,058	372,124	400,934	3.77%	29,144					
12	335.000 Misc. Power Plant Equipment	48,738	31,014	17,724	2.97%	1,448					
13	336.000 Roads and Railroads	68,205	17,874	50,331	2.50%	1,705					
14	Hydro Production	12,382,054	5,672,093	6,709,961		248,109	235,886	12,223	5,684,316	0	5,679,279
15	340.000 Land & Land Rights	3,270	0	3,270		0					
16	341.000 Structures & Improvements	1,214,654	11,737	1,202,917	5.00%	60,733				380,738	
17	342.000 Fuel Holders, Producers & Acces.	123,325	7,667	115,768	5.00%	6,166				8,031	
18	344.000 Generators	4,394,733	341,097	4,053,636	5.00%	219,737				510,015	
19	345.000 Accessory Electric Equipment	536,025	413	535,612	5.00%	26,801					
20	Other Production	6,272,007	360,804	5,911,203		313,437	85,007	228,430	589,234	898,785	1,487,487
21	350.000 Land & Land Rights	51,657	0	51,657	0.00%	0					
22	352.000 Structures and Improvements	227,105	146,878	80,227	2.75%	6,245					
23	353.000 Station Equipment	2,444,383	1,536,750	907,633	2.75%	67,221					
24	355.000 Poles and Fixtures	766,811	582,641	184,270	3.16%	24,231					
25	356.000 Overhead Cond. and Devices	907,946	569,903	338,043	2.20%	19,975					
26	Transmission	4,397,902	2,836,072	1,561,830		117,672	116,674	1,098	2,837,170	0	2,834,666
27	360.000 Land & Land Rights	33,205	0	33,205	0.00%	0					
28	361.000 Structures and Improvements	325,283	130,593	194,690	2.88%	9,368				45,983	
29	362.000 Station Equipment	4,144,384	1,849,609	2,294,775	2.75%	113,971					
30	364.000 Poles, Towers and Fixtures	5,709,953	2,447,242	3,262,711	3.42%	195,280					
31	365.000 Overhead Cond. And Devices	3,634,318	2,391,488	1,242,830	3.25%	118,115					
32	367.000 Underground Cond. And Devices	241,412	106,443	134,969	3.00%	7,242					
33	368.000 Line Transformers	2,883,955	1,726,397	1,157,558	2.78%	79,597					
34	369.000 Service - Distribution	2,047,627	1,494,426	553,201	4.83%	98,900					
35	370.000 Meters - Distribution	1,727,273	486,252	1,241,021	2.97%	51,300					
36	373.000 Street Lighting - Distribution	1,526,391	808,668	717,723	3.50%	53,424					
37	Distribution	22,273,801	11,441,018	10,832,783		727,197	687,325	39,872	11,489,890	45,983	11,616,599
38	390.000 Structure and Improvements	467,803	227,159	240,644	1.62%	7,578					
39	391.000 Office Furniture and Equipment	428,540	452,893	(24,353)	10.00%	0					
40	392.000 Transportation Equipment	940,856	631,668	309,188	9.50%	89,381					
41	394.000 Tools, Shop and Garage	193,938	121,863	72,075	4.00%	7,758					
42	395.000 Laboratory Equipment	12,315	14,730	(2,415)	5.56%	0					
43	397.000 Communication Equipment	97,396	62,530	34,866	7.47%	7,275					
44	General	2,140,848	1,510,643	630,205		111,992	146,863	(34,871)	1,476,772	0	1,474,464
45	Electric Plant in Service	48,467,682	22,084,303	26,373,379		1,643,174	1,296,422	246,762	22,331,065	944,768	23,266,268
46	106.500 Cost of Removal/Salvage	0	(19,555)	19,555		0	0	0	(19,555)	0	
47	Grand Total	48,761,678	22,082,208	26,679,470		1,549,011	1,302,242	246,769	22,328,977	944,768	23,273,745

48	PROFORMA BALANCE	1,549,011	23,273,745
49	PER BOOKS 12/31/2009	<u>1,302,242</u>	<u>20,869,566</u>
50	PROFORMA ADJUSTMENT:	<u>246,769</u>	<u>2,404,179</u>

51 Notes: Column G = Column C x Column F
 52 Column J = Column D plus Column I
 Column J allocates proportionally of the Cost of Removal to all categories except Acquisition Adjustments & Intangible

Lockhart Power Company
Docket No. 2010-181-E
Computation of Income Taxes
For the Test Year Ended December 31, 2009

Audit Exhibit SGS-4

After ORS's Accounting & Pro Forma Adjustments

<u>Description</u>	<u>\$ Total Electric Operations</u>	<u>\$ Retail Electric Operations</u>
Operating Revenues	20,623,840	12,536,639
Operating Expenses	18,478,319	10,819,923
Net Operating Income Before Taxes	2,145,521	1,716,716
Less: Annualized Interest Expense	0	0
Taxable Income - State	2,145,521	1,716,716
State Income Tax %	5.0%	5.0%
State Income Taxes	107,276	85,836
Less: State Income Taxes Per Book	156,055	113,590
Adjustment to State Income Taxes	(48,779)	(27,754)
Taxable Income - Federal	2,038,245	1,630,880
Federal Income Taxes %	34.0%	34.0%
Federal Income Taxes	693,003	554,499
Less: Federal Income Taxes Per Book	1,008,114	733,787
Adjustment to Federal Income Taxes	(315,111)	(179,288)

After Proposed Increase

<u>Description</u>	<u>\$ Retail Electric Operations</u>
Operating Revenues	14,141,847
Operating Expenses	10,825,965
Net Operating Income Before Taxes	3,315,882
Less: Annualized Interest Expense	0
Taxable Income - State	3,315,882
State Income Tax %	5.0%
State Income Taxes	165,794
Less: State Income Taxes As Adjusted	85,836
Adjustment to State Income Taxes	79,958
Taxable Income - Federal	3,150,088
Federal Income Taxes %	34.0%
Federal Income Taxes	1,071,030
Less: Federal Income Taxes As Adjusted	554,499
Adjustment to Federal Income Taxes	516,531

Rate Revenue Increase

Lockhart Power Company

Test Year Ending December 31, 2009

Docket No. 2010-181-E

Line No.	Retail Electric	Lockhart's Application	ORS Adjusted
1	Proposed Rate Revenue Increase	1,599,713 ¹	1,605,208 ²
2	Rate Revenues as Adjusted	12,185,820 ³	12,130,608 ⁴
3	Adjusted Revenues After Proposed Increase [L1 + L2]	13,785,533	13,735,816
4	Subtract Historical Rate Revenue EXCLUDING Monarch	13,447,857 ⁵	13,447,857 ⁵
5	Revenue Impact to Ratepayers [L3 - L4]	337,676	287,959
6	Rates of Return	12.50%	12.00%

¹ Per Company's Application Exhibit A3-1 (Column 6, Line 1)

² Per ORS Witness Scott's Exhibit SGS-1 (Column 7, Rate Revenue Line)

³ Per Company's Application Exhibit A3-1 (Column 5, Line 1)

⁴ Per ORS Witness Scott's Exhibit SGS-1 (Column 6, Rate Revenue Line)

⁵ Per Company's Application Exhibit A4 (Column 1, Line 9)

ORS Proposed Revenues
Lockhart Power Company
Test Year Ending December 31, 2009
Docket No. 2010-181-E

Revenues: \$287,959
ROE: 12.00%

Lockhart Power Company				ORS			
Lockhart Retail Revenue	Total Present Revenues	Proposed Revenues	Proposed Increase ¹	Proposed Percent Increase	Proposed Revenues	Proposed Increase	Percent Increase
<u>Residential Service</u>							
R	5,382,125	5,574,232	192,107	3.57%	5,545,948	163,822	3.04%
RA	2,095,126	2,142,446	47,320	2.26%	2,135,478	40,353	1.93%
Total Residential Service	\$7,477,251	\$7,716,678	\$239,427	3.20%	\$7,681,426	\$204,175	2.73%
<u>Commercial</u>							
C3	1,447,637	1,524,276	76,639	5.29%	1,512,992	65,355	4.51%
GA	292,303	293,596	1,293	0.44%	293,406	1,103	0.38%
Total General Service	\$1,739,940	\$1,817,872	\$77,932	4.48%	\$1,806,398	\$66,458	3.82%
<u>Industrial Service</u>							
I	3,818,233	3,818,233	0	0	3,818,233	0	0.00%
Total Industrial Service	\$3,818,233	\$3,818,233	\$0	0%	\$3,818,233	\$0	0.00%
<u>Street Lighting</u>							
SL	46,646	48,742	2,096	4.49%	48,433	1,787	3.83%
Street Lighting Total	\$46,646	\$48,742	\$2,096	4.49%	\$48,433	\$1,787	3.83%
<u>Outdoor Lighting</u>							
OL	365,787	384,009	18,222	4.98%	381,326	15,539	4.25%
Outdoor Lighting Total	\$365,787	\$384,009	\$18,222	4.98%	\$381,326	\$15,539	4.25%
Total Retail	\$13,447,857	\$13,785,534	\$337,676	2.51%	\$13,735,816	\$287,959	2.14%

¹ Numbers may not sum to total due to rounding

LOCKHART POWER COMPANY
SCHEDULE O
POWER ADJUSTMENT CLAUSE

Lockhart Power Company incurs considerable costs that are variable in the discharge of its requirement to supply power to its customers. These fall mainly into two categories: purchased power and fuel-related costs of generation. Variances in these costs are recovered through this rate schedule. In addition, certain wholesale power sales are credited to customers as an offset to cost of service through this same schedule.

Purchased Power

Purchased Power consists of the direct cost paid to Lockhart's power supplier for the wholesale purchase of power to satisfy Lockhart's full requirements needs. These costs will be included in the calculation of the monthly clause factor as a charge for the power purchased.

Wholesale Power Sales

When Lockhart requests and subsequently receives South Carolina Public Service Commission approval for a specific generation project to be included in its cost of service, the sales of such generation, if made off-system in the wholesale market, will be credited as an offset to the monthly power cost.

Fuel Costs

This consists of all fuel costs used in the generation process, including landfill gas royalties paid, and diesel fuel cost, including, but not limited to, the actual cost of the fuel and any associated taxes, transportation and other costs of acquiring the fuel stock. These costs will be included in the calculation of the monthly clause factor as a charge for the fuel purchased.

Calculation and Application of Monthly Charge Factor

Whenever the power cost per kWh on electric power purchased by Lockhart Power Company for requirements kWh sales shall increase above or decrease below 3.8622 cents per requirements kWh sold by the Company, the Company will pass this change on to its individual customers.

The amount of the monthly charge per kWh will be determined by the following formula, rounding the result to the nearest one-hundredth of a mill:

$$PCA = (((\text{Purchased Power Cost} + \text{Fuel Cost} - \text{Revenue Credits}) / \text{Requirements kWh Sales}) - .038622) \times 1.003.$$

This increase or decrease will be adjusted to all bills rendered during the following month.